

Message Text

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ACTION ARA-14

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C O N F I D E N T I A L CARACAS 2103

EO 11652 GDS
TAGS: ENRG VE JA
SUBJ: PROPOSED JAPANESE INVESTMENT IN THE ORINOCO
HEAVY OIL BELT
REF: CARACAS 1639

1. DURING A MEETING WITH THE AMBASSADOR FEB 24,
MINISTER OF ENERGY VALENTIN HERNANDEZ DESCRIBED A RECENT
PROPOSAL BY A JAPANESE GROUP TO ESTABLISH AND FINANCE
A PILOT PROJECT FOR THE PRODUCTION AND PROCESSING OF
OIL FROM THE ORINOCO BELT, A MASSIVE DEPOSIT OF VERY
HEAVY TAR-LIKE OIL IN EASTERN VENEZUELA. HERNANDEZ
BEGAN BY EXPLAINING THAT HE HAS LONG HELD THAT VENEZUELA
WILL NEED FOREIGN ASSISTANCE IN DEVELOPING THE TECH-
NOLOGY NEEDED FOR THE ORINOCO BELT AND THAT IN HIS VIEW
THIS PARTICIPATION COULD BEST BE HANDLED THRU
THE ESTABLISHMENT OF A NUMBER OF COMMERCIALY SIZED
PILOT PROJECTS TO TEST VARIOUS PRODUCTION AND PRO-
CESSING TECHNOLOGIES. HE SUGGESTED THERE COULD BE
FOUR SUCH PROJECTS, INVOLVING THE US, JAPAN, CANADA,
AND EITHER FRANCE OR RUMANIA. HE SAID HE HAD RAISED THIS
IDEA IN TWO PREVIOUS MEETINGS WITH HIGH LEVEL
JAPANESE GOVT OFFICIALS AND THE PRESENT PROPOSAL
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WAS THE RESULT OF THESE DISCUSSIONS.

2. THE PROPOSAL WAS MADE DURING THE THIRD JAPANESE-
VENEZUELAN ECONOMIC COOPERATION CONFERENCE (JAVEC) HELD
HERE IN MID-FEBRUARY (REFTEL). ACCORDING TO THE
MINISTER, THE JAPANESE OFFERED TO ARRANGE PREFER-
ENTIAL FINANCING OF UP TO \$1 BILLION FOR A PILOT

PROJECT TO PRODUCE AND PROCESS 100,000 BARRELS PER DAY OF ORINOCO HEAVY OIL. THE PROCESSING OF THE OIL, WHICH WILL BE THE KEY ELEMENT IN THE ECONOMIC VIABILITY OF THE PROJECT, WILL BE BASED ON THE FLEX-ICKER TECHNOLOGY DEVELOPED BY EXXON. HERNANDEZ SAID THAT VENEZUELA HAD RECENTLY SENT 5,000 BARRELS OF ORINOCO OIL TO JAPAN FOR A TEST RUN THRU THE FLEX-ICKER SYSTEM INSTALLED THERE, AND THE RESULTS WERE VERY ENCOURAGING. HE SAID THE PROCESS PRODUCED A TYPE OF VERY LIGHT CRUDE WHICH, WHEN REFINED, YIELDED A VERY HIGH PROPORTION OF GASOLINE, AS WELL AS A RESIDUAL PETROLEUM COKE WHICH RETAINED ALL OF THE SULFUR AND HEAVY METAL IMPURITIES PRESENT IN THE ORIGINAL CRUDE OIL.

3. THE MINISTER NOTED THAT THE JAPANESE HAVE BEEN CRITICIZED FOR THEIR VERY FAVORABLE TRADE BALANCE WITH VENEZUELA AND THAT THIS PROPOSAL WAS PROBABLY IN PART INFLUENCED BY A DESIRE TO FORESTALL SUCH CRITICISM. HOWEVER, HE SAID, THEY DID APPEAR TO BE SERIOUS IN THEIR OFFER. EVEN MORE IMPORTANT, HE SAID, WAS THAT WHEN HE REFERRED TO THE JAPANESE OFFER IN A RECENT PRESS INTERVIEW, THERE WAS NO PUBLIC COMMENT. HAD HE BEEN REFERRING, ON THE OTHER HAND, TO AN OFFER BY A MAJOR US MULTINATIONAL SUCH AS EXXON TO BECOME INVOLVED IN THE DEVELOPMENT OF THE ORINOCO DEPOSIT, THERE

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WOULD HAVE BEEN A TREMENDOUS PUBLIC OUTCRY. THE MINISTER SAID THAT HE AND OTHERS IN THE GOV REALIZE THAT US TECHNOLOGY IS ESSENTIAL TO THE DEVELOPMENT OF THE ORINOCO DEPOSIT AND THE CHALLENGE IS, THEREFORE, ONE OF FINDING WAYS TO BRING THIS TO BEAR WHILE AVOIDING SERIOUS POLITICAL PROBLEMS.

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